file

Granby Mining Corporation

75th
Annual Report

1975

Granby Mining Corporation

Directors

J. H. Colton
Senior Vice-President
and Secretary

T. G. Ewart
Retired,
Calgary, Alberta.

W. F. James
Partner,
James & Buffam, Consulting Geologists,
Toronto, Ontario.

J. W. Jewitt
Vice President—Mining,
Zapata Corporation,
Houston, Texas.

R. C. Lassiter
Executive Vice President and
Chief Operating Officer,
Natural Resource Products,
Zapata Corporation,
Houston, Texas.

G. T. Smith
President,
United Siscoe Mines Limited,
Toronto, Ontario.

R. M. Sutherland, Q.C.
Partner,
Fasken & Calvin,
Barristers and Solicitors,
Toronto, Ontario.

R. P. Taylor
President

General Manager — Mining

E. M. Berthelsen

Mine Manager, Phoenix Copper Division

G. B. Hardwicke

Officers

R. P. Taylor
President

J. H. Colton
Senior Vice-President and Secretary

J. L. McCrea
Vice-President, Exploration & Development

R. B. Richards
Treasurer

J. D. Balden
Assistant Treasurer

E. A. Bence
Assistant Secretary

Transfer Agents

The Canada Trust Company,
Vancouver, British Columbia.
The Canada Trust Company,
Toronto, Ontario.
Chemical Bank, New York, N.Y.

Registrars

National Trust Company, Limited,
Vancouver, British Columbia.
National Trust Company, Limited,
Toronto, Ontario.
The Chase Manhattan Bank, N.A.,
New York, N.Y.

Auditors

Arthur Andersen & Co.,
Vancouver, British Columbia.

Shares Listed

Pacific Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Subsidiary Companies

Active: Granisle Copper Limited
Granex (Proprietary) Limited
Zapata Mining (Proprietary) Limited

Inactive: Granby Metals Corporation Limited
Jedway Iron Ore Limited
Phoenix Copper Company, Limited (N.P.L.)

Granby and its subsidiary, Granisle Copper Limited, produce copper concentrate containing in addition to copper, relatively small amounts of gold and silver. They are engaged also in a continuing search for new mineral prospects throughout the world.

Granby Mining Corporation

R. P. Taylor, President

To the Shareholders:

The Company's consolidated net income for the year ended September 30, 1975 was $513,750 or $.36 per share compared with $7,670,478 or $5.31 per share for the previous twelve month period.

The substantial reduction in earnings is attributable mainly to the following:

1. Lower copper prices. The average London Metal Exchange price for copper in fiscal 1975 was 58¢ U.S. per pound, compared with $1.08 in 1974. Through the continuation of its policy of hedging a part of its production, your Company was able to mitigate the effect of the lower prices. These transactions contributed substantially to income and without them, a net loss for the year would have been incurred.
2. Increased treatment costs. These arose from the diversion of part of our production to alternate markets, and this matter is dealt with later on in the Marketing section.
3. Increased taxes. Both the Federal and the Provincial governments have enacted tax legislation which has proved to be particularly oppressive to the mining industry. In fiscal 1975, total taxes amounted to 83% of income before taxes and minority interest. This punitive rate of taxation prevents the Company from developing new mines in British Columbia and neither the Company, the Province, nor Canada can benefit from such a state of affairs. The British Columbia mining industry is continuing its efforts to convince both governments of the necessity of returning to an acceptable level of taxation.
4. Inflation. The costs of labour, supplies and other services continue to increase. We were specifically affected by substantial increases in the costs of grinding steel, blasting supplies, haulage truck tires, fuel and power, as well as other important goods and services needed to maintain our operations. Under present conditions, any increase in costs cannot be sustained.

As previously reported, the Board of Directors has instituted a policy of paying no further dividends until such time as the Company's after-tax earnings have risen to a level that, in the opinion of the Directors, warrants consideration of the reinstitution of dividend payments. Monies which would otherwise be paid out in dividends will be directed towards the purchase of needed plant and equipment and the continuation of exploration and business development activities.

Capital expenditures during the year totalled $1,234,834 and consisted of various replacements and improvements, primarily at the Granisle minesite. Dispositions during the year amounted to $645,276. These proceeds were derived mainly from the sale of employee-occupied housing, as well as the sale of certain mining equipment at Phoenix which, because of the reduced mining program, was no longer required.

Projected capital expenditures for fiscal 1976 are estimated at $2,300,000, all for Granisle. The most significant item will be the purchase of a ten yard shovel. Other projected expenditures are the completion of the new warehouse facilities at the Granisle minesite and the normal replacement of and improvement to plant and equipment.

At the year-end capital commitments totalled approximately $1,600,000, all for Granisle.

OPERATIONS

Granisle Mine Production	*Year Ended September 30* **1975**	1974
Tons Ore Treated	**4,879,623**	4,853,434
Average Tons Treated Per Day	**13,369**	13,297
Copper Content (%)	**0.46**	0.46
Tons Waste Removed	**7,745,714**	6,936,689
Stripping Ratio	**1:1.58**	1:1.41
Unit Cost of Production Per Ton Milled	**$3.42**	$2.74
Payable Metal Produced:		
Copper (lbs.)	**38,314,129**	38,697,527
Gold (ounces)	**16,966**	18,369
Silver (ounces)	**137,785**	191,958

The quantity and grade of ore treated compares favourably with that of 1974. Copper recoveries were erratic at times due to the milling of perimeter ores which were high in pyrite and contained very little bornite. As a result, the pounds of payable copper produced in 1975 were slightly lower. The unit cost of production

increased 25% to $3.42 per ton milled. Of the increase, 3% is attributable to an increase in waste removal, and 22% to higher labour costs and rapidly escalating material prices.

As of September 30, 1975, the Granisle copper mine had ore reserves, estimated from computer block values, of 66,066,000 tons at an average copper content of 0.43% and an estimated stripping ratio of 1.1 tons of waste per ton of ore. 4.9 million tons of ore were mined during the year. In addition, the reserves were decreased by 2.3 million tons to adjust for the lower tonnage of ore actually encountered in mining operations. Further pit design studies are being undertaken which may adversely affect future stripping ratios. There was a stockpile at year-end of 2.7 million tons of low grade material with an average copper content of 0.29%.

Phoenix Mine Production

	Year Ended September 30	
	1975	1974
Tons Ore Treated	**1,073,512**	995,751
Average Tons Treated Per Day	**2,941**	2,728
Copper Content (%)	**0.47**	0.44
Tons Waste Removed	**1,791,801**	2,807,268
Stripping Ratio	**1:5.64**	1:21.09
Unit Cost of Production		
Per Ton Milled	**$4.12**	$4.12
Payable Metal Produced:		
Copper (lbs.)	**8,316,690**	7,080,248
Gold (ounces)	**11,171**	10,003
Silver (ounces)	**101,294**	70,732

The ore reserves at Phoenix were 219,000 tons at year end, with an average copper content of 0.58% mineable at an ore to waste ratio of 1:2.12. In addition, the ore stockpile was 2,345,200 tons with an average copper content of 0.40%. 318,000 tons of ore were mined from the Ironsides pit. The reserves were decreased by 574,000 tons and this adjustment was a result of the uncertainties surrounding the estimation of reserves in a complex ore body previously mined by underground methods.

The revision of the ore reserves, together with escalating costs and low metal prices, made it necessary to reduce the scale of mining at Phoenix. As of May 1, 1975, the mining operation was reduced from three shifts per day to one. Mill throughput increased 8% over the previous fiscal year, and copper production increased by 23% as a result of the higher throughput and a slightly higher grade of ore milled.

The unit cost of Phoenix production remained at $4.12 per ton milled. Increased costs of labour and materials were offset by the savings arising from the reduced scale of mining operations.

MARKETING

Copper prices in fiscal 1975 were generally low; the behaviour of the market in fiscal 1974 and 1975 for the metals which Granby produces is illustrated by the graphs included in this Annual Report.

The economic downturn resulting in worldwide recession not only affected the price of copper adversely but also brought on a situation or over-supply of raw materials in Japan, our main sales outlet. As a result, that country severely curtailed imports of copper concentrates wherever possible. As noted in last year's Annual Report, the Company commenced delivery of its production from the Phoenix operation to the U.S.A. effective January 1, 1975. Because of the reduced smelter production in Japan, it became necessary to divert a portion of Granisle concentrate and arrangements were made for sales into West Germany. This diversion will continue in 1976. The outlook for copper in 1976 is not encouraging in face of the continuing over-supply of the metal worldwide and the expected slow recovery in the industrial economies.

EXPLORATION AND DEVELOPMENT

Granby's exploration and development activities in 1975 continued to be directed towards the basic long-term objectives of product and geographic diversification as formulated in prior years. The Company persists in its search for coal properties in Western Canada and in its efforts to acquire discovered mineral deposits, whether in Canada or abroad, which would offer near-term opportunities for corporate growth.

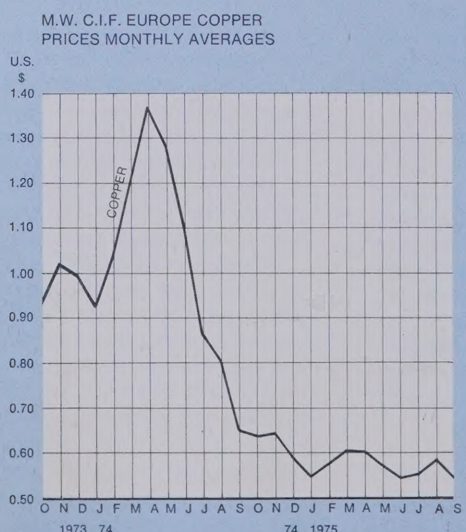
Total exploration and development expenditures amounted to $1,723,000 in 1975 compared to $2,264,000 in 1974 and $886,000 in 1973. In accordance with the practice of previous years, the costs of all programs not related solely to the Phoenix area were shared two-thirds by Granby and one-third by Granisle Copper Limited.

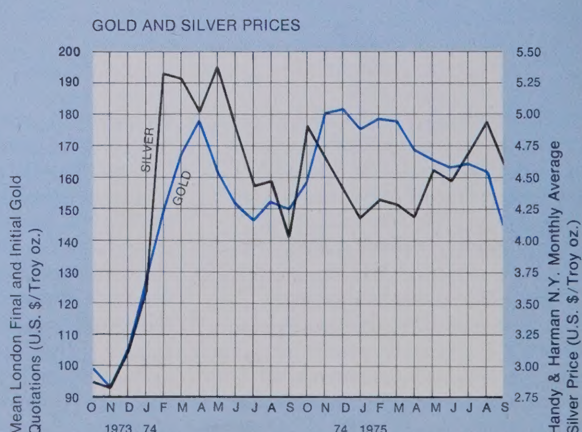
Granridge Project

The Granridge coking coal property in southwestern Alberta consists of 31,561 acres of Crown and freehold leases under option from CanPac Minerals Limited (CanPac). The leases provide the exclusive right to mine coal under a renewable 21-year lease, subject to current mining legislation and royalty payments to the leaseholders.

Compilation of the data obtained in the 1974 exploration program, together with preliminary engineering studies indicated the need for an additional program of geological mapping, drilling and bulk sampling designed to locate additional coal structures and to improve the confidence of the estimates on the known coal structures.

Execution of this program was thwarted when the Company was informed by the Government of the Province of Alberta that approval of permits for the exploration of coal leases would not be granted until a provincial coal policy had been established. This deferral applied to Granridge along with most of the other coal leases in Alberta. A geologic mapping program was undertaken on previously unexplored portions of the leases; however, drilling and other exploration activities could not be undertaken. Plans have been made to continue exploration in





1976 pending receipt of the necessary governmental approvals.

Under the original terms of the option agreement with CanPac, Granby was required to exercise the option to acquire CanPac's interest in the coal leases by July 1, 1976. Because exploration permits could not be obtained this year, the option period has been extended to July 1, 1977.

Other Canadian Projects

Granby's other exploration activities in Western Canada continued at a reduced level pending resolution of the Federal and Provincial Governments' conflict resulting in heavy taxation of the mining industry. A molybdenum property, held under option from Vestor Explorations Ltd., was drilled without sufficiently encouraging results to warrant continuing the option. Sufficient drilling was carried out on a lead-zinc-barite deposit in the Yukon Territory, held under option from Empire Metals Corporation, to keep the option in good standing.

Further exploration of the Huckleberry property, which had been extensively explored from 1972 to 1974, has been deferred pending an improved economic climate. Granby continues to hold the property under option from Kennco Explorations (Western) Limited. Under the terms of this agreement Granby has until 1989 to complete its expenditure of $1.5 million, of which approximately $1.0 million has been spent to date.

Exploration in the general area of the Phoenix concentrator was accelerated in an effort to develop additional ore for this plant. A test-mining program on a known deposit located on the Oro Denoro property, seven miles from the concentrator, did not indicate sufficient mineralization to justify development. Exploration is continuing on other portions of the property.

Foreign Exploration

Granby's South African exploration subsidiary, Granex (Pty.) Limited was active in the examination and evaluation of mineral properties in Transvaal and Cape provinces. The major exploration program was in the northern portion of Cape province where Granex has optioned approximately 37,000 acres of land in a favourable geological environment. Initial prospecting and mapping have indicated favourable structures and the presence of base metals. Continued exploration and an initial drilling program are planned for 1976.

Granby's other foreign exploration activities have been concentrated in the Western United States. The Lone Star property, in Ferry County, Washington, is held under option by Granby and Coastal Mining Company. Exploration in 1974 and 1975 has disproved the presence of sufficient mineralization to justify an independent operation. Because of the property's location, thirteen miles south of Granby's Phoenix mine, a study is being undertaken to determine the economic viability of mining a selected portion of the deposit for treatment at the Phoenix concentrator.

SHARE PURCHASES

Granby's holdings of shares of Granisle Copper Limited has increased from 3,190,095 at the beginning of the year to 3,267,080 at the end of the year, or 98.1% of the outstanding shares of Granisle.

Zapata Canada Limited, a subsidiary of Zapata Corporation, owned 1,336,358 shares or 92.5% of Granby Mining Corporation as at September 30, 1975, compared with 1,323,423 shares at the same date last year.

PERSONNEL

The total number of employees at the year-end was 452 compared to 486 a year previously. This reduction is primarily the result of the cutback in the Phoenix pit production undertaken in May of 1975.

The collective bargaining agreements in effect at Granisle and Phoenix which expire December 31, 1975 and August 31, 1976 respectively will both be re-negotiated in fiscal 1976. Total wages, salaries and employee benefits paid in fiscal 1975 amounted to $9,917,000, compared to $8,102,000 in 1974.

ENVIRONMENT AND SAFETY

As in the past, protection of the environment at the minesites continues to be a top priority and those standards established by government agencies are met and in many ways exceeded by the Company. Granisle is continuing its participation in government studies directed towards protection of the Babine watershed and has further extended its reclamation program. Plans for final reclamation of the Phoenix Mine were advanced with the direction and assistance of the Department of Mines.

The safety record at both minesites has been very good and this year Phoenix won the Department of Mines "B" Trophy for safety in open pit mines for an unprecedented sixth time.

GENERAL

Effective July 31, 1975, Mr. J. W. Jewitt resigned as President of Granby and has joined Zapata Corporation, Houston, Texas as its Vice President—Mining. Mr. R. P. Taylor, formerly Executive Vice-President, was appointed President of your Company by the Board of Directors, effective August 1, 1975. Granby's Annual General Meeting will be held at 10:30 a.m. on Wednesday, February 18, 1976 in the Plaza West Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia.

The Directors wish to commend all employees for their spirit and determined efforts to maintain our operations despite the many difficulties with which we were confronted during 1975.

On behalf of the Board of Directors,

R. P. Taylor,
President

Vancouver, British Columbia
December 15, 1975.

40R drill at Phoenix

Haulage crew at Granisle

Accounting staff at Vancouver

Summary of Operations*

(stated in $000's)

	Year ended September 30				9 Months ended September 30
	1975	1974	1973	1972	1971
Net revenues	**$ 28,490**	$ 40,362	$ 29,765	$ 15,722	$ 11,985
Operating income	**1,926**	17,053	11,338	3,760	1,920
Interest expense	**101**	164	145	—	72
Provision for taxes:					
Mineral Land Tax	**1,065**	880	—	—	—
Income and mining taxes	**1,699**	8,235	4,980	1,914	1,521
Income before extraordinary items	**514**	8,170	5,515	1,871	497
Extraordinary items	**—**	(500)	—	—	83
Net income	**$ 514**	$ 7,670	$ 5,515	$ 1,871	$ 580
Shares outstanding	**1,444,371**	1,444,371	1,444,371	1,444,371	1,444,371
Net income per share					
Before extraordinary items	**$ .36**	$ 5.66	$ 3.82	$ 1.30	$ .34
Extraordinary items	**—**	(.35)	—	—	.06
After extraordinary items	**$ .36**	$ 5.31	$ 3.82	$ 1.30	$ .40
Cash dividends per share ($U.S.)	**$ .15**	$ .60	$ .60	$ .60	$ 1.20

Restated for comparative purposes where necessary.

Management's Discussion and Analysis of the Summary of Operations

Fiscal 1973

Net revenues increased significantly in 1973 compared with 1972. The most important reasons for this were:

(a) a plant expansion at Granisle during fiscal 1973 raised the capacity of the plant from approximately 6,500 to approximately 13,300 tons per day;

(b) higher average prices received for copper, gold and silver.

As is apparent, Operating income rose too, even though total operating costs went up 54%, as a result of the additional labour and material costs associated with the enlarged operation, and higher depreciation charges; naturally, both the provision for taxes and Net income increased substantially.

Fiscal 1974

Performance in fiscal 1974 again improved, mainly because of the upward movement of world prices for copper, gold and silver; moreover, production was stimulated by an emphasis on greater operating efficiency at the Granisle mine and this played an important role in augmenting net revenues. Thus, Operating income climbed to $17,053,000 in the face of a further jump in total operating costs of 26%, attributable mainly to inflationary increases in the costs of supplies, labour and other services and also to higher exploration costs and depreciation charges.

A new form of provincial tax called Mineral Land Tax became applicable to Granby commencing January 1, 1974. This tax is based not on profits but rather on revenues and accordingly imposes a severe burden on the results of operations. It is expected that until the tax is removed, this negative effect will continue and the profitability of the Company will suffer. The Federal Government of Canada further compounded the problem by disallowing Mineral Land Tax as a deduction for the purpose of calculating Federal Income Tax.

The extraordinary item of $500,000 was brought about by a write-down to market value at September 30, 1974 of certain marketable securities owned by the Company. These securities were sold in fiscal 1975. Net income for 1974 of $7,670,000 showed a 39% improvement over net income for the preceding year.

Fiscal 1975

The Directors' Report to Shareholders, which is included in this Annual Report, should be referred to for more detailed information.

Although total production of copper, gold and silver in 1975 was roughly comparable to 1974, net revenue was down by approximately $12,000,000, or 29% from 1974. As noted in the Report, the drastic decline in revenue was caused mainly by (a) lower copper prices, the average London Metal Exchange price falling from $1.08 per pound in fiscal 1974 to $.58 in 1975, and (b) increased treatment costs arising from the diversion of part of our production to alternate markets. Revenue for 1975 of $28,490,000 includes gains from hedging transactions.

The inflationary spiral which began in fiscal 1972 was the main factor involved in a 14% increase in total operating costs. Thus, Operating income was down to $1,926,000, compared with $17,053,000 for the preceding year. As can be seen from the Summary, Mineral Land Tax actually increased in fiscal 1975 over 1974, despite the drastic drop in Operating income. Indeed, total taxes amounted to $2,764,000, a clearly punitive sum. The end result of all these factors was to lower Net Income in fiscal 1975 to $514,000. This represents a reduction of 93% from the previous year's Net Income of $7,670,000.

GRANBY MINING CORPORATION

Market prices and dividends

Trading Period	**Price Range**				**Dividends Paid ($ U.S.)**
	($ U.S.) Pacific Stock Exchange*		($ CAN.) Toronto Stock Exchange		
	Low	High	Low	High	
Fiscal 1974					
1st Quarter	$16⅞	$21.25	$17.00	$21.25	$0.15
2nd Quarter	$17⅜	$27.25	$19.00	$26.25	$0.15
3rd Quarter	$27.00	$27⅝	$26.25	$26.75	$0.15
4th Quarter	$25.00	$26.75	$25.00	$26.00	$0.15
Fiscal 1975					
1st Quarter	$24.50	$25.25	$23.25	$25.00	$0.15
2nd Quarter	$26.00	$27.25	$25.25	$25.25	Nil
3rd Quarter	$26⅞	$32.00	$27.00	$27.00	Nil
4th Quarter	$26.00	$28.00	No Trades		Nil

* *The Pacific Stock Exchange is the principal market in which Granby shares are traded. The Exchange is located in San Francisco, California.*

To the Shareholders,
Granby Mining Corporation:

We have examined the consolidated balance sheet of GRANBY MINING CORPORATION (a British Columbia company and subsidiary of Zapata Corporation) and Subsidiaries as of September 30, 1975 and 1974, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Granby Mining Corporation and Subsidiaries as of September 30, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Pursuant to Section 212 of the British Columbia Companies Act, we further report that in our opinion, due provision has been made for minority interests.

Vancouver, British Columbia
October 31, 1975.

ARTHUR ANDERSEN & CO.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

Assets

	September 30 1975	1974
CURRENT ASSETS (Note 1):		
Cash and short-term deposits	**$ 7,550,598**	$12,215,885
Accounts receivable	**5,991,939**	6,026,055
Concentrate inventory, at estimated realizable value	**4,509,643**	4,276,364
Materials and supplies, at the lower of average cost or replacement cost	**3,627,693**	2,987,489
Marketable securities, at market	**—**	728,440
Prepaid expenses	**211,188**	318,541
Total current assets	**$21,891,061**	$26,552,774
REFUNDABLE DEPOSITS AND OTHER ASSETS, at cost	**$ 252,551**	$ 259,885
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)	**$43,987,169**	$43,519,980
Less—Accumulated depreciation and depletion	**17,477,282**	15,171,154
Net property, plant and equipment	**$26,509,887**	$28,348,826
DEFERRED CHARGES:		
Exploration costs (Note 1)	**$ 1,706,302**	$ 1,099,250
Retirement plan contribution, at cost less amortization	**165,864**	188,748
	$ 1,872,166	$ 1,287,998
	$50,525,665	$56,449,483

On behalf of the Board:

J. H. COLTON, Director

R. M. SUTHERLAND, Director

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	September 30 1975	1974
CURRENT LIABILITIES:		
Bank loan	$ —	$ 32,000
Accounts payable and accruals	3,633,949	3,050,333
Income and mining taxes payable (Note 2)	1,581,879	7,543,563
Total current liabilities	$ 5,215,828	$10,625,896
8% NOTE PAYABLE, to parent company	$ 316,000	$ 316,000
DEFERRED INCOME AND MINING TAXES (Note 2)	$ 5,356,397	$ 5,460,397
MINORITY INTEREST IN SUBSIDIARY	$ 619,514	$ 1,328,496
SHAREHOLDERS' EQUITY:		
Capital stock (Note 3):		
Authorized, 6,000,000 shares, par value $1.66-2/3 per share		
Outstanding, 1,444,371 shares	$ 2,407,285	$ 2,407,285
Contributed surplus	1,241,502	1,241,502
Retained earnings, per accompanying statement	35,369,139	35,069,907
Total shareholders' equity	$39,017,926	$38,718,694
CONTINGENT LIABILITIES AND COMMITMENTS (Note 5)		
	$50,525,665	$56,449,483

CONSOLIDATED STATEMENT OF INCOME

	Year Ended September 30 1975	1974
Net revenues—(Note 1)	**$28,490,010**	$40,362,305
Expenses:		
Cost of production	**$21,425,849**	$18,039,375
Depreciation, depletion and amortization (Note 1)	**2,880,579**	2,832,990
Exploration (Note 1)	**1,115,524**	1,164,745
General and administrative	**1,142,253**	1,272,407
	$26,564,205	$23,309,517
Operating income	**$ 1,925,805**	$17,052,788
Investment and other income	**1,401,053**	710,112
Income before provision for taxes, minority interest in net income of subsidiary and extraordinary item	**$ 3,326,858**	$17,762,900
Provision for taxes:		
Mineral land tax	**$ 1,065,447**	$ 879,573
Income and mining taxes (Note 2)	**1,699,000**	8,235,000
	$ 2,764,447	$ 9,114,573
Income before minority interest in net income of subsidiary and extraordinary item	**$ 562,411**	$ 8,648,327
Minority interest in net income of subsidiary	**48,661**	477,849
Income before extraordinary item	**$ 513,750**	$ 8,170,478
Extraordinary item:		
Write-down of marketable securities	**—**	500,000
Net income	**$ 513,750**	$ 7,670,478
Net income per share:		
Before extraordinary item	**$ .36**	$5.66
After extraordinary item	**$ .36**	$5.31
Cash dividends per share in U.S. dollars	**$ .15**	$ .60
Number of shares outstanding	**1,444,371**	1,444,371

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended September 30	
	1975	1974
BALANCE AT BEGINNING OF YEAR	**$35,069,907**	$28,250,763
Add net income	**513,750**	7,670,478
	$35,583,657	$35,921,241
Deduct dividends paid	**214,518**	851,334
BALANCE AT END OF YEAR	**$35,369,139**	$35,069,907

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended September 30	
	1975	1974
WORKING CAPITAL PROVIDED BY:		
Operations:		
Income, before extraordinary item	**$ 513,750**	$ 8,170,478
Depreciation, depletion and amortization	**2,880,579**	2,832,990
Deferred income and mining taxes	**(104,000)**	1,036,000
Minority interest in net income of subsidiary	**48,661**	477,849
Other	**(194,852)**	133,530
Working capital provided by operations	**$ 3,144,138**	$12,650,847
Reclassification of long-term investments to marketable securities	**—**	728,440
Deposits refunded (paid)	**7,334**	(5,633)
8% note payable to parent company	**—**	316,000
Total working capital provided	**$ 3,151,472**	$13,689,654
WORKING CAPITAL APPLIED TO:		
Net additions to property, plant and equipment	**$ 589,558**	$ 3,112,812
Exploration costs deferred	**607,052**	1,099,250
Dividends paid	**214,518**	851,334
Acquisition of minority interest	**981,840**	659,537
Acquisition cost of subsidiary, net of its working capital	**—**	346,319
Dividends paid by subsidiary to minority shareholders	**10,149**	49,005
Total working capital applied	**$ 2,403,117**	$ 6,118,257
INCREASE IN WORKING CAPITAL	**$ 748,355**	$ 7,571,397
Working capital at beginning of year	**15,926,878**	8,355,481
WORKING CAPITAL AT END OF YEAR	**$16,675,233**	$15,926,878

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements September 30, 1975 and 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Granby Mining Corporation (the Company) and Subsidiaries, Granisle Copper Limited (Granisle), Zapata Mining (Pty.) Limited, Granex (Pty.) Limited, and certain inactive companies, after elimination of inter-company balances and transactions.

During 1975, the Company increased its share ownership of Granisle from 95.8% to 98.1%.

The financial statements of a subsidiary, Jedway Iron Ore Limited, have not been consolidated as its mining operations have ceased and the investment therein is considered to have no value.

Currency Translation

Current assets denominated in foreign currency have been translated into Canadian currency at the rate of exchange prevailing at the respective balance sheet dates.

Property, Plant and Equipment

Particulars of the cost of property, plant and equipment are as follows:

	September 30	
	1975	1974
Mineral claims	**$ 8,768,084**	$ 8,533,738
Land	**40,509**	131,501
Mine buildings and equipment	**24,805,769**	24,635,209
Mobile and other equipment	**10,372,807**	10,219,532
	$43,987,169	$43,519,980

Mineral claims include the excess cost of the Company's investment in Granisle over its net book value at time of acquisition of $8,702,985 ($8,468,639 in 1974). Depletion of mineral claims is based on the proportion of copper produced to the estimated copper content of ore reserves of the mine; accumulated depletion as of September 30, 1975 is $2,050,779 ($1,553,945 at September 30, 1974).

Depreciation of the Granisle and Phoenix mine buildings and equipment is provided on a straight-line basis over the estimated life of the respective mine.

Granisle's mobile equipment (except drills and shovels) is being depreciated at 30% per annum on a diminishing balance basis, and drills and shovels on a straight-line basis at 10% per annum. The Company's mobile equipment is being depreciated at 30% per annum on a diminishing balance basis.

Exploration Costs

Current exploration costs are charged against income for the year. Costs relating to properties, which in the opinion of management indicate a probability of future development, are deferred. The deferred exploration costs will be either amortized over a period not to exceed the estimated life of the revenue producing property or charged against income in the year it is determined that the property under investigation no longer has a probability of future development.

Under the terms of an agreement between the Company and Granisle, all exploration costs on projects originated by the Company after January 1, 1971, are shared on a two-third, one-third basis.

During the year ended September 30, 1975, the Company incurred exploration expenditures totalling $607,052 on the "Granridge" property. This compares with the sum of $1,099,250 which was spent on this property during fiscal 1974. The rights to this property were acquired under an option agreement with CanPac Minerals Limited (CanPac), under the terms of which the Company is committed to incur exploration expenditures, excluding option payments, of $500,000 on the property by October 1, 1975. This obligation has been fulfilled. The Company was also required to pay to CanPac the sum of $350,000 by July 1, 1975, and is required to pay a sum of $2,000,000 by July 1, 1976 if it wishes to exercise the option. The Company, however, applied for but did not receive exploration permits to carry out its 1975 field program, and consequently it was agreed between CanPac and the Company that the liability to make the two option payments of $350,000 and $2,000,000 be postponed to July 1, 1976 and July 1, 1977 respectively. Interest at prevailing rates on the

sum of $350,000 will be paid to CanPac from July 1, 1975 while the option continues in effect, but in any event, not beyond July 1, 1976.

Net Revenues

Net revenues include (i) all the Company's concentrate production from the Phoenix mine sold under contract to a customer in the United States, (ii) all Granisle's concentrate production sold under contracts to customers in Japan and West Germany, and (iii) gains from hedging transactions.

Production represented by concentrate inventory and shipments in transit at year-end has been recorded at the September average quoted price for metals, which is estimated to be the final settlement price.

Comparative Figures

The 1974 financial statements have been reclassified to conform with the 1975 presentation.

2. INCOME AND MINING TAXES:

Federal Income Taxes Paid, Under Dispute

By Notice of Re-Assessment dated January 21, 1974, the Minister of National Revenue imposed tax on a portion of certain dividends received by the Company from Granisle during the 1969, 1970 and 1971 taxation years. The Company, as required, paid the amount re-assessed of $2,355,678 including interest, and then filed a Notice of Objection with the Department of National Revenue. The re-assessment was, however, confirmed on February 27, 1975. An appeal to the Federal Court of Canada was lodged on May 22, 1975, and the Statement of Claim has been filed. In any event, no further tax liability will result.

Provincial Mining Taxes Paid, Under Dispute

In April 1974, the Commissioner of Income Tax for British Columbia re-assessed Granisle for mining tax payable for the period December 1, 1969 to September 30, 1971. The re-assessment is based on an interpretation of certain sections of the Mining Tax Act by the Commissioner, which differed substantially from the interpretation placed on the same sections by the Commissioner during the aforementioned period. The additional amount alleged to be owing is $869,012, including statutory interest of $149,820, which has been paid by Granisle. The re-assessment was confirmed by the Minister of Finance, and Granisle's appeal therefrom was heard in the Supreme Court of British Columbia on April 11 and 25, 1975. The judgment of the Supreme Court, rendered May 9, 1975, was in favour of Granisle in that it declared the method adopted by Granisle of calculating mining tax during the relevant period was correct. An appeal from this decision, however, was entered by the Minister of Finance on June 17, 1975. The date on which the appeal will be heard has not as yet been set.

Although liability for tax is not admitted, the consolidated financial statements reflect a provision for additional mining taxes of $465,000 for the period October 1, 1971 to September 30, 1975.

Income and Mining Tax Expense

	September 30	
	1975	1974
Current—		
Income tax	**$1,803,000**	$4,889,000
Mining tax	**—**	2,310,000
	$1,803,000	$7,199,000
Deferred—		
Income tax	**$ 72,000**	$ 922,000
Mining tax	**(176,000)**	114,000
	$ (104,000)	$1,036,000
	$1,699,000	$8,235,000

Under the terms of the November 18, 1974 budget passed by the Canadian government, the standard 33-1/3% depletion allowance terminated May 6, 1974, and corporations engaged in mining are now allowed to deduct earned depletion. The earned depletion deduction is allowed at the rate of $1 for every $3 of eligible capital and exploration expenditures made after November 7, 1969, up to a maximum of 25% of production profits per annum. As of September 30, 1975, the Company and its subsidiaries had earned depletion available for future years of approximately $3,780,000 ($3,440,000 as of September 30, 1974).

Deferred income and mining taxes result primarily from timing differences in the recording of depreciation for accounting purposes and the claiming of capital cost allowances for tax purposes.

3. CAPITAL STOCK:

Under the Company's "Restricted Stock Option Plan" dated January 13, 1960, 138,000 shares of the Company's stock were reserved for the granting of options to key employees, the purchase price per share being 10% above the market value at the date of the grant. The options granted are for a term of ten years from the date of the grant, and there are certain limitations on the number of shares that can be acquired in the first five years. An option on 2,000 shares at $38.23 U.S. per share was outstanding at September 30, 1975 and 1974. No options were granted in either 1975 or 1974. Unallocated shares under the plan totalled 54,400 shares at September 30, 1975 and 1974. If the reserved and granted options were exercised, there would be no potential dilutive effect on net income per share for the year ended September 30, 1975.

4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers (as defined in the British Columbia Companies Act) for the year ended September 30, 1975 amounted to $348,108 ($298,315 in 1974).

5. CONTINGENT LIABILITIES AND COMMITMENTS:

The action commenced in the Supreme Court of British Columbia by Silver Standard Mines Ltd. (N.P.L.) against Jedway Iron Ore Limited (Jedway) and the Company, referred to in Note 5 of the 1974 consolidated financial statements, has been resolved wholly in favour of Jedway and the Company.

Granisle has guaranteed 50% of a $650,000 mortgage extended by a bank to Granisle Village Inn Ltd., a non-affiliate, in connection with a hotel built and operated at the Granisle townsite. Granisle Village Inn Ltd. is currently in receivership; however, Granisle's management is of the opinion that no material liability in respect of this guarantee will be incurred by Granisle.

Further, Granisle is contingently liable to a maximum of approximately $1,600,000 in connection with the mortgaging of certain homes occupied by employees in the town of Granisle. Granisle has also guaranteed payment of approximately $106,000 borrowed by the Village of Granisle from a bank for the provision of community facilities.

Purchase commitments totalling approximately $1,600,000 have been made in connection with the purchase of various mining equipment and facilities.

At September 30, 1975, no events had occurred giving rise to actual liabilities under these contingencies and commitments.

A civil action, arising from (a) the purchase of stock of the Company by Zapata Canada Limited (Zapata Canada), a wholly-owned subsidiary of Zapata Corporation, and (b) a proposed amalgamation between the Company, Granisle and Zapata Canada (which proposal was abandoned in December, 1972) was filed by certain minority shareholders of the Company and Granisle naming as defendants the Company, Granisle and certain present and/or former directors, and/or officers of the Company and Granisle and alleging among other things violations of the United States Securities Exchange Act of 1934 and further seeking equitable relief and compensatory and punitive damages. Baker & Botts, as U.S. counsel for the Company and Granisle, after consultation with Canadian counsel on matters of Canadian law, have expressed their opinion that this action should not result in any material loss or liability on the part of either company. No provision has been made in the accounts for any amounts which may become payable as a result of the said actions.